Alberta

2015-16 **First Quarter**
Fiscal Update and Economic Statement

August 2015

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NOTE: Amounts presented in tables may not add to totals due to rounding.

Alberta

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2015–16 FIRST QUARTER FISCAL UPDATE

Method of Consolidation

A 2015-16 budget was introduced on March 26th (March Budget), but was not passed, as a provincial election was called. The election on May 5th resulted in the formation of a new government. The new government will introduce a revised budget for 2015-16 in October.

The *2015-16 First Quarter Fiscal Update and Economic Statement* therefore reports on the same scope, using the same method of consolidation, as presented in the March Budget. This is the same scope and consolidation approach used in the Consolidated Financial Statements in the Government of Alberta Annual Report.

The results of all government departments, funds and agencies, except those designated as government business enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of provincial agencies designated as government business enterprises are included on the modified equity basis, computed in accordance with International Financial Reporting Standards applicable to those entities.

Basis of Financial Reporting

The consolidated fiscal summary reports revenue (including gains from disposal of tangible capital assets), expense (including amortization, loss on disposal and write-down of tangible capital assets), and surplus / (deficit).

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue.

Transfers received for capital purposes, and donated capital assets, are recorded as "deferred capital contributions" when the cash or asset is received, and recognized in revenue over the related asset's useful life (in effect: matching the asset's amortization expense).

Expense includes the province's cash payments towards the unfunded pension liabilities, and the non-cash change in unfunded pension liabilities.

Debt servicing costs include interest payable, and amortization of issue costs and discounts / premiums on debt issues.

Compliance with Legislation

The *2015-16 First Quarter Fiscal Update and Economic Statement* has been developed following the March Budget reporting methods. The March Budget was prepared on the basis of repealing the *Fiscal Management Act* (FMA) and introducing a new act with a different fiscal framework. The FMA gives the President of Treasury Board and Minister of Finance discretion over the form of the report.

The report includes comparisons between the March Budget estimates and first quarter forecasts for the full fiscal year for revenue and expense (including details and categories of each); the surplus / (deficit); cash adjustments; a summary balance sheet; the Capital Plan; and financing (borrowing) requirements. An updated Alberta economic outlook, with associated assumptions, is also provided. The forecasts and outlook were finalized in late July.

As there were no quarterly estimates developed in March, a set of three-month estimates has been developed to enable a comparison between the actual results for revenue, expense and the Capital Plan and what would have been estimated for the three months ending June 30, 2015.

Fiscal Plan Highlights

Income Statement

A deficit of $5.9 billion is forecast for 2015-16, $814 million higher than the March Budget estimate. The change is due primarily to increased disaster assistance expense for wildfires and agricultural support due to dry conditions this year, and to restoration of proposed reductions to major ministry operating expense, as identified in the government plan. Total revenue has increased by $1 billion, while total expense has increased by $1.8 billion.

Revenue is forecast to be $44.3 billion, $1,020 million higher than estimated in the March Budget.

- The resource revenue forecast has been increased by $710 million to $3.6 billion, mainly due to a higher forecast for oil prices, a lower light-heavy oil price differential, and the impact on royalties of a lower Canadian-US exchange rate. These are partly offset by lower natural gas prices and land lease sales.
- The West Texas Intermediate oil price forecast has increased from budget by US$1.01 to $55.85 per barrel, as actual prices to the end of July were US$56.19, compared to the budget forecast of $47.95. The light-heavy differential forecast has declined by US$3.94 to $13.13. The natural gas Alberta Reference Price forecast has decreased 34 cents, to Cdn$2.60 per gigajoule, and the exchange rate forecast has decreased by 2 cents, to 79.5US¢/Cdn$.
- The personal income tax revenue forecast has increased $248 million from the March Budget estimate, to $11.9 billion. This reflects: the reversal of a $483 million increase related to the proposed health care levy and charitable donations tax credit in the March Budget; an estimate of a $450 million impact from the introduction of a multiple rate system; a positive prior-years' adjustment of $158 million as higher 2014 tax year assessment data mean 2013-14 and 2014-15 revenue was under-reported; and an increase of $123 million from the associated resulting elevated base used to forecast 2015-16 revenue.
- The corporate income tax revenue forecast has increased $249 million from the March Budget estimate, to $4.8 billion, due to the rate change.
- Total revenue from other sources is forecast to be $187 million lower than estimated in the March Budget. This is due to: reversing the proposed $228 million increase to tuition, land titles and motor vehicle licences fees; a $30 million reduction in forecast Alberta Capital Finance Authority investment income from lower-than-expected lending activity; a $31 million increase to the forecast for Climate Change and Emissions Management Fund levies; an increase of $21 million in federal agriculture support and producer agriculture insurance premiums; and a net $19 million in other revenue.

Expense is forecast at $50.2 billion, $1,832 million higher than estimated in the March Budget.

- Operating expense is forecast at $43.4 billion, $1.4 billion higher, almost entirely due to the restoration of proposed March Budget reductions to Health, Education, Innovation and Advanced Eduation and Human Services. In addition, there are $16 million in increases, mainly related to expense offset by dedicated revenue.
- Disaster assistance is forecast to be $757 million, a $456 million increase from budget, comprising: $350 million in agriculture indemnities from drought conditions; $300 million in wildfire costs; $6 million in 2013 Alberta flood assistance re-profiled from 2014-15; less $200 million in unallocated disaster assistance expense contained in the March Budget.

Debt servicing costs are estimated to be $47 million lower due to lower-than-expected Alberta Capital Finance Authority lending activity, lower rates, and slower borrowing for the Capital Plan.

Balance Sheet

The Contingency Account balance on March 31, 2016 is now forecast to be $3.5 billion, $1.1 billion higher than the March Budget estimate. This is due to: $1.7 billion in cash from 2014-15 results that improved after the budget was prepared but were not known on March 31, 2015; $0.3 billion lower retained income of funds and agencies (mainly from Agricultural Financial Services Corporation funding the increased agricultural indemnities from its crop insurance fund); partly offset by the $0.8 billion increase to the deficit, and a $0.1 billion increase in net cash requirements.

Liabilities for capital projects on March 31, 2016 are forecast to be $18.3 billion, $0.6 billion higher than estimated in the March Budget due primarily to a $0.6 billion increase in Capital Plan spending.

FISCAL PLAN SUMMARY[a]

Consolidated Financial Statements basis

(millions of dollars)

Income Statement

	Fiscal Year			Change
	2014-15	2015-16		from
	Actual	Budget	Forecast	Budget
Revenue				
Income tax revenue	16,838	16,228	**16,725**	497
Other tax revenue	4,598	5,322	**5,334**	12
Non-renewable resource revenue	8,948	2,869	**3,579**	710
Other revenue	19,097	18,899	**18,700**	(199)
Total Revenue	**49,481**	**43,318**	**44,338**	**1,020**
Expense				
Operating expense	42,053	42,030	**43,444**	1,414
Disaster assistance (with operating 2013 flood support)	336	301	**757**	456
Capital grants (including 2013 flood support)	2,463	2,021	**2,030**	9
Amortization / inventory consumption / disposal losses	3,204	3,117	**3,117**	-
General debt servicing costs	362	413	**371**	(42)
Capital Plan debt servicing costs	352	477	**472**	(5)
Pension provisions	(404)	31	**31**	-
Total Expense	**48,366**	**48,388**	**50,222**	**1,832**
Surplus / (Deficit)	**1,115**	**(5,070)**	**(5,884)**	**(814)**

Capital Plan

Capital grants	2,476	2,131	**2,159**	28
Capital investment	3,414	4,300	**4,888**	588
Capital Plan without SUCH	**5,890**	**6,431**	**7,047**	**616**
SUCH sector adjustment / self-financed investment	288	493	**520**	27
Total Capital Plan	**6,178**	**6,925**	**7,567**	**642**

Balance Sheet

	At March 31			Change
	2015	2016		from
	Actual	Budget	Forecast	2015
Financial Assets				
Heritage Fund and endowment funds	18,874	19,107	19,107	233
Contingency Account	6,529	2,402	3,542	(2,987)
Self-supporting lending organizations	19,152	20,400	20,105	953
Other financial assets	12,188	13,390	11,820	(368)
SUCH sector financial assets	9,334	8,779	8,748	(586)
Total Financial Assets	**66,077**	**64,078**	**63,322**	**(2,755)**
Liabilities				
Liabilities for capital projects	11,922	17,692	18,278	6,356
Self-supporting lending organizations	17,302	18,293	18,317	1,015
Other liabilities	7,367	6,529	6,581	(786)
Pension liabilities	11,196	11,227	11,227	31
SUCH sector liabilities	5,236	4,991	5,002	(234)
Total Liabilities	**53,023**	**58,732**	**59,405**	**6,382**
Net Financial Assets	**13,054**	**5,346**	**3,917**	**(9,137)**
Capital assets	44,753	47,451	48,066	3,313
Deferred capital contributions	(2,556)	(2,616)	(2,616)	(60)
Net Assets	**55,251**	**50,181**	**49,367**	**(5,884)**
Change in Net Assets (before adjustments)	**1,115**	**(5,070)**	**(5,884)**	

[a] 2015-16 Budget revenue on the Income Statement has been restated to reflect lower revenue of $79 million related to SUCH sector consolidations and deferred capital contributions. 2015-16 Budget asset and liability numbers on the Balance Sheet have been restated to reflect 2014-15 Actual results.

REVENUE[a]

(millions of dollars)

	Fiscal Year			Change from Budget
	2014-15 Actual	2015-16 Budget	2015-16 Forecast	
Income Taxes				
Personal income tax	11,042	11,699	**11,947**	248
Corporate income tax	5,796	4,529	**4,778**	249
	16,838	**16,228**	**16,725**	**497**
Other Taxes				
Education property tax	2,102	2,253	**2,253**	-
Tobacco tax	896	1,010	**1,010**	-
Fuel tax	944	1,476	**1,476**	-
Insurance taxes	393	409	**417**	8
Freehold mineral rights tax	172	88	**92**	4
Tourism levy	91	86	**86**	-
	4,598	**5,322**	**5,334**	**12**
Non-Renewable Resource Revenue				
Bitumen royalty	5,049	1,361	**2,257**	896
Crude oil royalty	2,245	594	**619**	25
Natural gas and by-products royalty	989	450	**392**	(58)
Bonuses and sales of Crown leases	476	315	**157**	(158)
Rentals and fees / coal royalty	189	149	**154**	5
	8,948	**2,869**	**3,579**	**710**
Transfers from Government of Canada				
Canada Health Transfer	3,601	3,978	**3,975**	(3)
Canada Social Transfer	1,452	1,515	**1,515**	-
Agriculture support programs	288	288	**299**	11
Labour market agreements	174	177	**177**	-
Infrastructure support	341	259	**264**	5
Other (includes 2013 flood assistance / SUCH transfers)	126	705	**715**	10
	5,982	**6,922**	**6,945**	**23**
Investment Income				
Alberta Heritage Savings Trust Fund	1,825	1,455	**1,455**	-
Endowment funds	354	260	**260**	-
Alberta Capital Finance Authority [a]	288	259	**229**	(30)
Contingency Account	116	103	**103**	-
Agriculture Financial Services Corporation	132	137	**137**	-
Other (includes SUCH income)	398	289	**277**	(12)
	3,113	**2,503**	**2,461**	**(42)**
Net Income from Government Business Enterprises				
AGLC - Gaming / lottery	1,526	1,545	**1,545**	-
AGLC - Liquor	767	834	**837**	3
Alberta Treasury Branches	325	283	**283**	-
Other - CUDGCo / APMC	47	59	**53**	-
	2,665	**2,721**	**2,724**	**3**
Premiums, Fees and Licences				
Post-secondary institution tuition fees	1,116	1,153	**1,116**	(37)
Health / school board fees and charges	672	671	**671**	-
Motor vehicle licences	516	556	**525**	(31)
Crop, hail and livestock insurance premiums	307	301	**311**	10
Energy industry levies	292	306	**306**	-
Land titles	91	250	**90**	(160)
Land and grazing	73	58	**58**	-
Other (includes health benefits premiums)	497	577	**575**	(2)
	3,564	**3,872**	**3,652**	**(220)**
Other				
SUCH sector sales, rentals and services	850	855	**855**	-
SUCH sector fundraising, donations and services	667	563	**563**	-
AIMCo investment management charges	264	257	**257**	-
Fines and penalties	146	204	**204**	-
Refunds of expense	1,106	138	**141**	3
Climate change and emissions management	77	60	**91**	31
Miscellaneous [a]	663	804	**807**	3
	3,773	**2,881**	**2,918**	**37**
Total Revenue	**49,481**	**43,316**	**44,338**	**1,020**

[a] 2015-16 Budget revenue has been restated to reflect $59 million lower investment income of Alberta Capital Finance Authority related to SUCH sector consolidations, and $20 million lower to reflect capital contribution revenue that should be deferred (in "Other - Miscellaneous" revenue).

Note:
2014-15 Actual and 2015-16 Budget numbers in the following expense, Capital Plan and three-month Fiscal Plan Summary tables have been restated to reflect transfers between government departments and the creation of the Ministry of Status of Women made subsequent to the March Budget, as established by Orders in Council 121 and 166/2015 under the *Government Organization Act* on May 25, 2015 and June 30, 2015.

OPERATING EXPENSE BY MINISTRY

(millions of dollars)

	Fiscal Year			Change from Budget
	2014-15 Actual	2015-16 Budget	Forecast	
Aboriginal Relations	183	186	**186**	-
Agriculture and Forestry	1,079	1,089	**1,096**	7
Culture and Tourism	274	270	**271**	1
Education	7,250	7,169	**7,267**	98
Energy	647	678	**681**	3
Environment and Parks	391	398	**398**	-
Health	17,814	17,504	**18,614**	1,110
Human Services	4,087	4,197	**4,289**	92
Infrastructure	507	498	**498**	-
Innovation and Advanced Education	5,169	5,337	**5,433**	96
International and Intergovernmental Relations	32	37	**37**	-
Jobs, Skills, Training and Labour	126	184	**184**	-
Justice and Solicitor General	1,313	1,329	**1,330**	1
Municipal Affairs	237	281	**281**	-
Seniors	573	569	**569**	-
Service Alberta	226	242	**242**	-
Status of Women	-	-	**1**	1
Transportation	523	479	**483**	4
Treasury Board and Finance	1,481	1,412	**1,412**	-
Executive Council	19	22	**22**	-
Legislative Assembly	122	150	**150**	-
Total Operating Expense	**42,053**	**42,030**	**43,444**	**1,414**

DISASTER / EMERGENCY ASSISTANCE EXPENSE

(millions of dollars)

	Fiscal Year			Change from Budget
	2014-15 Actual	2015-16 Budget	Forecast	
Agriculture and Forestry	170	-	**650**	650
Municipal Affairs	32	-	-	-
Unallocated	-	200	-	(200)
Total	**202**	**200**	**650**	**450**
2013 Alberta flood assistance:				
Aboriginal Relations	6	7	**7**	-
Agriculture and Forestry	1	-	-	-
Culture and Tourism	5	6	**6**	-
Education	3	7	**7**	-
Environment and Parks	23	12	**12**	-
Health	16	-	-	-
Human Services	4	1	**1**	-
Infrastructure	54	57	**58**	1
Municipal Affairs	21	11	**16**	5
Other	2	-	-	-
Total 2013 Alberta flood assistance	**134**	**101**	**107**	**6**
Total Disaster / Emergency Assistance	**336**	**301**	**757**	**456**

CAPITAL AMORTIZATION EXPENSE

(millions of dollars)

	Fiscal Year			Change from
	2014-15	2015-16		
	Actual	Budget	Forecast	Budget
Agriculture and Forestry	26	29	29	-
Culture and Tourism	3	4	4	-
Education	306	309	309	-
Energy	21	20	20	-
Environment and Parks	43	44	44	-
Health	653	613	613	-
Human Services	11	11	11	-
Infrastructure	93	109	109	-
Innovation and Advanced Education	486	473	473	-
Jobs, Skills, Training and Labour	2	2	2	-
Justice and Solicitor General	15	17	17	-
Municipal Affairs	2	3	3	-
Seniors	32	32	32	-
Service Alberta	41	42	42	-
Transportation	458	472	472	-
Treasury Board and Finance	17	21	21	-
Legislative Assembly	3	3	3	-
Total Amortization Expense	**2,211**	**2,205**	**2,205**	**-**

INVENTORY CONSUMPTION EXPENSE

(millions of dollars)

	Fiscal Year			Change from
	2014-15	2015-16		
	Actual	Budget	Forecast	Budget
Health	795	752	752	-
Infrastructure	18	96	96	-
Service Alberta	14	10	10	-
Transportation	52	50	50	-
Other	3	3	3	-
Total Inventory Consumption Expense	**881**	**911**	**911**	**-**

DEBT SERVICING COSTS

(millions of dollars)

	Fiscal Year			Change from
	2014-15	2015-16		
	Actual	Budget	Forecast	Budget
General				
Agriculture and Forestry - AFSC	70	75	75	-
Seniors - ASHC	10	8	8	-
Treasury Board and Finance - ACFA / other	282	330	288	(42)
Total general debt servicing costs	**362**	**413**	**371**	**(42)**
Capital Plan				
Education - school P3 financing costs	30	30	30	-
Transportation - ring road P3 financing costs	72	71	71	-
Treasury Board and Finance - direct borrowing	250	376	371	(5)
Total Capital Plan debt servicing costs	**352**	**477**	**472**	**(5)**
Total Debt Servicing Costs	**714**	**891**	**843**	**(48)**

INVENTORY ACQUISITION

(millions of dollars)

	Fiscal Year			Change from Budget
	2014-15 Actual	2015-16 Budget	2015-16 Forecast	
Health	799	758	**758**	-
Infrastructure	44	47	**67**	20
Service Alberta	14	10	**10**	-
Transportation	50	50	**50**	-
Other	4	3	**3**	-
Total Inventory Acquisition	**911**	**868**	**888**	**20**

CASH ADJUSTMENTS[a]

(millions of dollars)

	Fiscal Year			Change from Budget
	2014-15 Actual	2015-16 Budget	2015-16 Forecast	
Retained Income of Funds and Agencies				
Alberta Heritage Fund	(210)	(166)	**(166)**	-
Alberta Treasury Branches	(325)	(283)	**(283)**	-
Agriculture Financial Services Corporation	(247)	(259)	**61**	320
Endowment funds	(163)	(67)	**(67)**	-
Alberta Social Housing Corporation	36	24	**56**	32
Alberta Capital Finance Authority	(58)	(55)	**(51)**	4
Other	(81)	(19)	**(71)**	(52)
Total Retained Income of Funds and Agencies	(1,048)	(825)	**(521)**	304
Other Cash Adjustments				
Energy royalties (difference between accrued revenue & cash)	1,369	(378)	**(47)**	331
Student loans	(239)	(367)	**(367)**	-
Inventory acquisition	(172)	(170)	**(190)**	(20)
Other cash adjustments	278	(76)	**(442)**	(366)
2013 Alberta flood assistance revenue / expense	(745)	(164)	**(220)**	(56)
Current principal repayments (P3s / direct capital borrowing)	(39)	(42)	**(42)**	-
Inventory consumption (non-cash expense)	141	214	**214**	-
Amortization / book value of disposals (non-cash expense)	855	869	**869**	-
Total Other Cash Adjustments	1,448	(114)	**(225)**	(111)

[a] Fiscal Plan basis (excludes SUCH sector, Innovates corporations, environmental monitoring agency and pension provisions). Negative adjustments are a cash requirement; positive adjustments are a cash source.

2015-16 FINANCING REQUIREMENTS[a]

(millions of dollars)

	First 3 months of 2015-16			Fiscal Year			Change from Budget
	Estimate	Actual	Change	2014-15 Actual	2015-16 Budget	2015-16 Forecast	
Financing Requirements / Completed to Date							
Direct borrowing for capital purposes	1,420	29	(1,391)	3,021	5,681	**6,238**	557
Re-financing of maturing debt	-	-	-	905	-	**-**	-
Term debt borrowing for provincial corporations:[b]							
Agriculture Financial Services Corporation	75	-	(75)	175	300	**300**	-
Alberta Capital Finance Authority	594	915	321	1,655	2,375	**2,121**	(254)
Alberta Petroleum Marketing Commission	85	114	29	650	340	**340**	-
Alberta Treasury Branches	263	-	(263)	227	1,050	**1,050**	-
Total Financing Requirements / Completed to Date	**2,437**	**1,058**	**(1,379)**	**6,633**	**9,746**	**10,049**	**303**

[a] Since June 30 2015, additional debt has been issued for capital purposes of Cdn$700 million and US$1,250 million (Cdn$1,646 million).

[b] Gross borrowing requirements for provincial corporations. Include amounts of maturing debt being re-financed.

Capital Plan Highlights

2015-16 Capital Plan spending is forecast to be $7.6 billion, an increase of $642 million from the March Budget. Increases mainly reflect carrying over of 2014-15 projects, including those related to 2013 flood assistance, and re-profiling, partly offset by lower capital grants for the two carbon capture and storage projects.

In addition, $310 million in planned school funding is being accelerated into 2015-16 from future years.

Direct borrowing for the Capital Plan is now estimated at $6.2 billion, an increase of $557 million from budget, due to the higher spending. Cash received for capital purposes and from alternative financing have increased $89 million primarily related to the re-profiling of projects from 2014-15. A budgeted $31 million transfer from the Contingency Account is no longer forecast, while spending self-financed by the SUCH sector has increased by $27 million.

CAPITAL PLAN SUMMARY

(millions of dollars)

	Fiscal Year			Change from
	2014-15	2015-16		
Summary	Actual	Budget	Forecast	Budget
Capital Plan Spending	**6,178**	**6,925**	**7,567**	**642**
Capital Plan Financing				
Cash received for capital purposes	483	499	**559**	60
Retained income of funds and agencies	138	107	**107**	-
Book value of capital asset disposals	41	-	-	-
Alternative financing (P3s)	199	114	**143**	29
Direct borrowing	3,021	5,681	**6,238**	557
Capital Plan financing account withdrawal / (deposit)	673	-	-	-
Transfer from Contingency Account	1,335	31	-	(31)
SUCH sector self-financed	288	493	**520**	27
Total Capital Plan Financing	**6,178**	**6,925**	**7,567**	**642**
By Ministry				
Aboriginal Relations	9	10	**10**	-
Agriculture and Forestry	60	44	**53**	9
Culture and Tourism	48	41	**41**	-
Education	358	1,122	**1,492**	370
Energy	79	330	**306**	(24)
Environment and Parks	46	86	**93**	7
Health	664	457	**457**	-
Human Services	5	6	**7**	1
Infrastructure	233	341	**361**	20
Innovation and Advanced Education	777	914	**914**	-
Jobs, Skills, Training and Labour	1	1	**1**	-
Justice and Solicitor General	96	67	**70**	3
Municipal Affairs	1,869	1,074	**1,076**	2
Seniors	103	214	**271**	57
Service Alberta	39	46	**49**	3
Transportation	1,633	1,841	**1,985**	144
Treasury Board and Finance	30	21	**21**	-
Legislative Assembly	-	2	**2**	-
2013 Alberta flood assistance				
Culture and Tourism	1	-	-	-
Education	5	1	**11**	10
Environment and Parks	57	214	**229**	15
Infrastructure	1	15	**19**	4
Municipal Affairs	25	14	**14**	-
Seniors	4	1	**1**	-
Transportation	35	62	**85**	23
Total Capital Plan	**6,178**	**6,925**	**7,567**	**642**

FISCAL PLAN SUMMARY FOR THREE MONTHS ENDED JUNE 30, 2015

Consolidated Financial Statements basis

(millions of dollars)

Income Statement	First 3 months of 2015-16		Change from
	Estimate	Actual	Estimate
Revenue			
Personal income tax revenue	2,801	2,831	30
Corporate income tax revenue	1,239	1,257	18
Other tax revenue	1,312	1,241	(71)
Resource revenue - bitumen royalties	340	589	249
Resource revenue - crude oil royalties	149	180	31
Resource revenue - other	228	226	(2)
Transfers from Government of Canada	1,877	1,740	(137)
Investment income	637	769	132
Net income from commercial operations	679	701	22
Premiums, fees and licences	1,045	1,172	127
Other revenue	708	695	(13)
Total Revenue	**11,015**	**11,401**	**386**
Program Expense by Ministry			
Aboriginal Relations	51	40	(11)
Agriculture and Forestry	273	277	4
Culture and Tourism	69	59	(10)
Education	1,873	1,902	29
Energy	221	146	(75)
Environment and Parks	148	111	(37)
Executive Council	5	5	-
Health	4,716	5,003	287
Human Services	1,115	1,097	(18)
Infrastructure	172	163	(9)
Innovation and Advanced Education	1,360	1,375	15
International and Intergovernmental Relations	9	6	(3)
Jobs, Skills, Training and Labour	35	33	(2)
Justice and Solicitor General	436	435	(1)
Municipal Affairs	1,152	42	(1,110)
Seniors	173	139	(34)
Service Alberta	64	64	-
Status of Women	-	-	-
Transportation	242	233	(9)
Treasury Board and Finance	369	384	15
Legislative Assembly	-	-	-
Total Program Expense	**12,483**	**11,514**	**(969)**
Debt servicing costs	233	190	(43)
Pension provisions	-	-	-
Total Expense	**12,716**	**11,704**	**(1,012)**
Surplus / (deficit)	**(1,701)**	**(303)**	**1,398**

Capital Plan

Capital Grants	**1,212**	**41**	**(1,171)**
Capital Investment	**799**	**646**	**(153)**
Total Capital Plan	**2,011**	**687**	**(1,324)**

ECONOMIC OUTLOOK

Economic outlook weakens

The Alberta economy is being hit by low oil prices. Real GDP is now expected to contract by 0.6% in 2015, down one percentage point from the March forecast. The revision stems from weaker-than-expected household consumption, investment and exports (Figure 1). The downturn is forecast to be more protracted than previously expected, with weakness carrying into 2016. Growth in 2016 is now forecast to be 1.3%, down 0.4 percentage points from the previous forecast.

External conditions have weakened since March with another flare-up in the Greek crisis and the recent stockmarket crash and currency devaluation in China. This has weighed on oil prices and heightened uncertainty about the outlook for the Alberta economy. Canada's economy has also slowed substantially since the oil price drop.

Business Sector

Oil prices remain depressed

After remaining steady around US$60/bbl for most of the second quarter of 2015, WTI has once again tumbled below US$50/bbl. The forecast for WTI remains near the March forecast for this fiscal year. The light-heavy oil price differential has narrowed this year, as strong demand for heavy oil, unplanned supply outages and increased market access have supported heavy oil prices. While the differential has widened again recently due to refinery disruptions, these effects are expected to be temporary. The 2015-16 WTI-WCS differential forecast has been adjusted down to US$13/bbl. The outlook for natural gas prices has weakened, with the Alberta Reference Price expected to average $2.60 /GJ over 2015-16.

Oil investment down sharply

The sharp decline in oil prices has substantially reduced capital spending in the energy sector. Oil and gas investment is expected to fall over 30% in 2015, with weakness carrying into 2016. Conventional investment has been hit especially hard. Rig activity has declined almost 50% through the first seven months of 2015. As a result, the 2015 forecast for conventional investment has been revised lower. Oilsands investment is expected to fall by less than conventional, as projects started prior to the price drop continue to move ahead. Outside the energy sector, non-residential construction activity has held up, supported by institutional and government building. Overall, non-residential investment is forecast to fall 18% in 2015, almost 2 percentage points lower than expected in March.

Business activity slumping

Lower oil prices are weighing on production and exports. Although exports remain an important driver in Alberta's economy, the forecast for oil production has been revised lower since March. This mainly reflects unplanned disruptions in oil sands production and the significant slowdown in conventional drilling. In addition, weakness in the oil and gas sector has spread to other sectors of the economy. Alberta machinery manufacturing has fallen 20% since January. This can be mainly traced to declining industrial machinery and equipment manufacturing, which primarily serves the oil industry. Agricultural exports are also expected to fall in 2015 as drought conditions have adversely affected farm production. Overall, real exports are expected to grow 2.3% in 2015, down 1.5 percentage points from March. The 2016 forecast is largely unchanged at 3.0%.

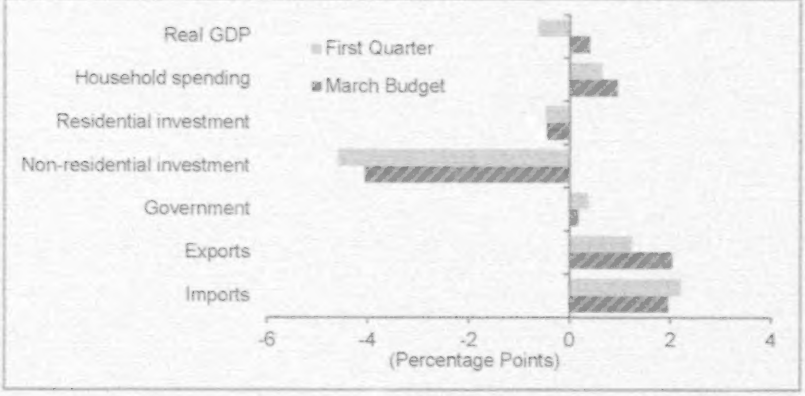
Corporate profits decline

Lower prices are expected to reduce corporate profits by about 50% in 2015. The decline in revenues has caused oil producers to look for cost savings, further eroding profits and margins for suppliers to the oil sector. Weakness is expected to carry into 2016, with corporate profits recovering by 17% in 2016, down from the March forecast of 27%.

Canadian dollar softens

The Canadian dollar has weakened recently as commodity prices declined and the US dollar strengthened. It lost further ground when the Bank of

Figure 1. Contribution to Alberta real GDP growth forecast



Source: Alberta Treasury Board and Finance

ECONOMIC OUTLOOK

Canada lowered interest rates by 25 basis points to help stimulate the Canadian economy. The Bank also lowered its forecast for Canadian real GDP, as low oil prices have slowed activity more than expected. The exchange rate forecast for 2015-16 has been lowered by 2 cents to 79.5 US¢/Cdn$.

Household Sector

Employment forecast on track

The labour market has been fairly resilient amid the sharp decline in oil prices, with employment holding near the December 2014 level. As a result, the forecast for employment growth in 2015 has improved slightly to 0.8%. There are signs, however, that the labour market is weakening. Employment growth has steadily declined, the number of jobs available has dwindled, and the unemployment rate jumped to 6.0% in July (Figure 2). Labour markets are expected to weaken further in the second half of the year and into next year. The 2016 labour outlook remains largely unchanged from March: employment is expected to grow a modest 0.8% in 2016, with the unemployment rate averaging 5.9%.

Earnings growth slows

Earnings have been slumping alongside employment. Year-over-year growth in average weekly earnings (AWE) slowed to only 0.2% in May, and is now up only 1.8% year-to-date. Primary household income, a driver of personal income tax, is expected to grow by just 2.5% in 2015 and 3.3% in 2016. This is down markedly from the nearly 8% average growth over the last 4 years.

Households curtail spending

Weak labour markets and uncertainty about the economy have prompted households to restrain spending more than expected. Retail sales have fallen 2.1% year-to-date, pulled down by lower gasoline prices and vehicle sales. Consumer spending is still expected to add to real GDP growth in 2015, but by less than previously forecast. CPI inflation has evolved as expected, averaging 0.8% year-to-date, and on target for the forecast of 0.9% inflation in 2015.

Mixed housing performance

The new and resale housing markets diverged through the first half of 2015. The economic downturn and ongoing uncertainty hindered resale housing across Alberta, especially in Calgary. Sales of existing homes in the province dropped sharply in January and remain 21% lower than last year. In contrast, residential construction has been a source of strength in the Alberta economy, carrying momentum from 2014. Housing starts have been buoyed by multi-unit construction, while single starts have declined. Residential permits, however, suggest momentum is slowing, with housing construction expected to be substantially weaker in the second half of 2015. Housing starts are forecast to be 33,600 in 2015, declining to 29,800 in 2016.

Migration continues at slower rate

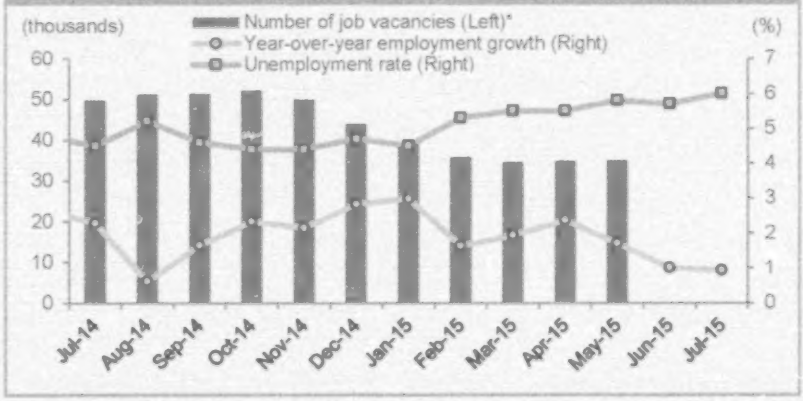
Population growth has been resilient, with people continuing to move to the province despite the slowdown. Alberta welcomed 7,723 people from outside the province in the first quarter of 2015, as positive interprovincial migration offset losses of non-permanent residents. While net inflows remain positive, they have slowed from the record pace set in 2013 and 2014. The forecast for 2015 population growth is unchanged at 2%.

Risks to the outlook

Risks to the Alberta economy remain elevated, reflecting uncertainty about the path of oil prices and global economic conditions.

- The main risk is a prolonged period of low oil prices stemming from an oversupplied market. Should oil prices fail to improve, the Alberta economy could face prolonged weakness.
- Increased uncertainty about the economy could further erode consumer and business confidence, reducing spending.
- Lower-than-expected population growth would put downward pressure on housing markets and consumer spending.
- On the upside, a sudden improvement in oil prices would improve Alberta's outlook.

Figure 2: Alberta labour market indicators



Source: Statistics Canada

* Latest Job Vacancy statistics are for May

Key Energy and Economic Assumptions

Fiscal Year Assumptions	2014–15 Actual	2015-16 3 Month Actual	2015-16 Fiscal Year Forecast	
			March Outlook	July Outlook
Prices				
Crude Oil Price				
West Texas Intermediate (WTI) (US$/bbl)	80.48	57.94	54.84	55.85
Alberta Wellhead (Cdn$/bbl)[a]	77.83	63.03	50.79	60.86
Western Canadian Select (WCS) (Cdn$/bbl)	70.78	56.99	46.33	53.71
Natural Gas Price				
Alberta Reference Price (Cdn$/GJ)	3.51	2.33	2.94	2.60
Production				
Conventional crude oil (000s barrels/day)	586	583	575	558
Raw bitumen (000s barrels/day)	2,330	2,226	2,552	2,472
Natural gas (billions of cubic feet)	4,764	816[g]	4,743	4,759
Interest rates				
3-month Canada treasury bills (per cent)	0.85	0.63	0.60	0.55
10-year Canada bonds (per cent)	1.98	1.65	2.20	1.80
Exchange Rate (USc/Cdn$)	87.8	81.3	81.5	79.5

Calendar Year Assumptions	2014 Estimates	2015 Year-to-Date	2015 Calendar Year Forecast		2016 Calendar Year Forecast	
			March Outlook	July Outlook	March Outlook	July Outlook
Gross Domestic Product						
Nominal (millions of dollars)	364,678[b]	n/a	334,908	334,933	353,885	349,647
per cent change	7.8[b]	n/a	-8.1	-8.2	5.7	4.4
Real (millions of 2007 dollars)	316,171[b]	n/a	315,695	314,405	321,209	318,498
per cent change	4.4[b]	n/a	0.4	-0.6	1.7	1.3
Other Indicators						
Employment (thousands)	2,275	2,305[f]	2,288	2,293	2,311	2,310
per cent change	2.2	1.8[f]	0.6	0.8	1.0	0.8
Unemployment rate (per cent)	4.7	5.5[f]	5.7	5.7	5.9	5.9
Average Weekly Earnings (per cent change)	3.7	1.8[d]	1.9	2.0	2.2	2.4
Primary Household Income (per cent change)	6.8[b]	n/a	2.4	2.5	3.5	3.3
Net Corporate Operating Surplus (per cent change)	17.1[b]	n/a	-50.6	-49.5	27.2	17.2
Housing starts (number of units)	40,600	39,953[f]	33,600	33,600	30,500	29,800
Alberta Consumer Price Index (per cent change)	2.6	0.8[e]	0.9	0.9	1.5	1.8
Population (July 1st, thousands)	4,122	4,175[c]	4,206	4,203	4,278	4,272
per cent change	2.9	2.2[c]	2.0	2.0	1.7	1.7

[a] Refers to the average price per barrel of Alberta light, medium and heavy oil.
[b] Alberta Treasury Board and Finance estimate.
[c] Population estimate as of April 1st, 2015; year-over-year growth rate
[d] January to May
[e] January to June
[f] January to July
[g] Two-month actual

Alberta